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October 19, 2001

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Boston Edison Company, D.T.E. 00-82

Dear Secretary Cottrell:

Enclosed for filing are: (1) the Joint Motion for Approval of Settlement Agreement; and (2) the Settlement Agreement entered into by Boston Edison Company (the "Company") and the Attorney General (the "Settling Parties) in the above-referenced matter. Also enclosed is a Certificate of Service.

The Settlement Agreement is intended to resolve all issues in this case relating to the reconciliation of costs and revenues for the years 1998, 1999 and 2000. The Settlement Agreement contains three changes to the Company's filing: (1) the removal of the proposed adjustment for the so-called Distribution Revenue Loss Adjustment (¶ 2.2 of the Settlement Agreement); (2) a $2.0 million reduction of the total Transition Charge Costs (¶ 2.3 of the Settlement Agreement); and (3) a refinement in the reconciliation of the Transition Charge revenues (¶ 2.4 of the Settlement Agreement). The last adjustment requires some explanation.

In its initial filing in this case, the Company proposed to alter the methodology used to reconcile Transition Charge revenues. The prefiled testimony of Mr. Robinson describes the change:

> The change in the manner of reconciling Transition Charge revenues was discussed during last year's true-up proceeding and may be briefly described as a manner of reconciling based on actual revenues received for kWh delivered, rather than on the basis of kWh delivered times an average rate. In the Company's prior filing, Transition Charge revenues were reconciled by, in effect, assuming that every kWh delivered collected the "average" per-kWh Transition Charge established by the Department. The revenue reconciliation therefore represented a reconciliation solely of sales volumes, because it calculated the Transition Charge revenue reconciliation by accounting for the difference between the estimated kWh delivered and actual kWh delivered multiplied by the average Transition

> Charge for the year. Although, with the exception of Rate WR, every rate is designed to collect the "average" approved Transition Charge, the rate design, for some customer classes, collects the Transition Charge through peak and off-peak rates and demand charges. Mr. LaMontagne has designed the rates to collect the average Transition Charge for each class, but in practice this produces the precisely correct level of revenues only if the load patterns are exactly the same as those that serve the basis of the rate-design models. Deviations in load patterns within and between customer classes means that the actual Transition Charge revenues are likely to diverge from the amount the rates are designed to collect each year. This change to the manner of reconciling revenues leads to a more accurate true-up of revenues for the Company and its customers.

(Exhibit BEC-BKR at 9-10). The Settlement Agreement adopts the methodology proposed by the Company with a modification intended to ensure that the reconciliation of revenues is equitable among classes.

As described by Mr. Robinson, the way that rates are designed and changes in customer load patterns results in some deviation between the level of Transition Charge revenues that were "theoretically" collected from customers and the amount collected (based on actual revenues). The initial proposal of the Company was intended to reconcile, on a Company-wide basis, the actual Transition Charge revenues. The enhancement contained in the Settlement Agreement, refines that reconciliation by adjusting for minor differences between rate classes.[1] Although each of the rate classes, except for Rate WR, is designed to collect the full, uniform Transition Charge, actual Transition Charge revenues deviate from the "theoretical" amount. The Settlement Agreement computes that differential and makes a subsequent adjustment to correct for the difference. The class-by-class calculations for the years 1998, 1999 and 2000 are contained in Exhibit BEC-1 (Settlement), attached to the Settlement Agreement.

Exhibit BEC-1 (Settlement), pages 2 through 4, computes, for each rate class except Rate WR, the difference between the actual billed Transition Charge revenues and the revenues that would have been collected if the uniform, "theoretical" rate had actually been realized. The net differences for each class are summed for 1998, 1999 and 2000 on page 1 of Exhibit BEC-1 (Settlement). The cumulative dollar difference for each class is

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[1] It must be emphasized that, although the enhancement will adjust the recovery of Transition Charges between classes, the Settlement Agreement does not change the overall intent or structure of the initial proposal. That is, the reconciliation of Transition Charge revenues for the Company, in aggregate, is based on actual revenues received. This ensures that the Company-wide reconciliation is an accurate true-up of actual revenues and that, in the aggregate, customers pay, and the Company receives, no more and no less than the approved level of Transition Charge costs. In this way, the Transition Cost revenues will be fully reconciled in accordance with the Company's approved Restructuring Settlement.

divided by the projected 2002 kWh sales projections to calculate a per-kWh class Transition Charge rate-design adjustment that will be added to or subtracted from the Company-wide, uniform 2002 Transition Charge when that rate is filed by the Company.[2]

Under the terms of the Settlement Agreement, a similar process will be followed in subsequent years. For example, the Company will be making its reconciliation filing for calendar year 2001 in November 2001, based on some actual data and some projections for the remainder of the year. The Company will update that filing in April 2002, with a full year of actual 2001 data. At that time, the Company will compute the Transition Charge revenue differences, on a class-by-class basis, in a format similar to that contained in Exhibit BEC-1 (Settlement). The computed adjustments for 2001 would be applied to the 2003 Transition Charge. Exhibit BEC-BKR-1, page 4 contains figures to illustrate how the calculations would be made in future years. It should be noted that the adjustments shown in columns P and Q subsequent to 2002 do not represent actual projections of the level of future adjustments, but are inserted for illustrative purposes.

Thus, the provisions of the Settlement Agreement ensure that the actual Transition Charge revenues and costs are fully reconciled on a Company-wide basis and that the cost responsibility between and among rate classes is adjusted to be more uniform. The Settling Parties believe that this modification to the way in which the Transition Charge is reconciled appropriately implements the intent of the Restructuring Settlement by providing for a full reconciliation of costs and revenues. See, e.g., Restructuring Settlement, ¶¶ I.B.1.(c); I.B.2.(f); I.B.4; V.C.5. The mechanism included in the Settlement Agreement ensures that the Company's customers pay no more and no less than the approved level of Transition Costs, and that the collection of the Transition Charges is uniformly apportioned between and among rate classes.

As described in the Settlement Agreement, it shall be deemed withdrawn if not approved in its entirety by the Department by November 16, 2001. If the Department has any questions regarding the terms of the Settlement Agreement or wishes additional information, please contact Joseph Rogers, Assistant Attorney General, William Stowe or me.

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[2] To the extent that individual rate class Transition Charge adjustments for a given year result in a net over- or under-collection of Transition Charge revenues, compensating adjustments will be made to the Transition Charge calculation. For illustrative purposes, such adjustments are shown in Columns P and Q of page 4 of Exhibit BEC-BKR-1 (Settlement).

Thank you for your attention to this matter.

Sincerely,

Robert N. Werlin

Enclosures

cc: William H. Stevens, Hearing Officer (seven copies)
Service List

E:\Boston Edison\2000 BECo Reconciliation 00-82\settlement documents\00-82 Settlement Cover Letter (10-19-01).doc